

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 25, 1951.

PRESENT: Mr. Szymczak, Chairman pro tem  
Mr. Evans  
Mr. Vardaman  
Mr. Norton

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 24, 1951, were approved unanimously.

Memorandum dated July 20, 1951, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Mr. Gail M. Hartmann, Research Assistant in that Division, be accepted to be effective, in accordance with his request, at the close of business August 3, 1951.

Approved unanimously.

Letter to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of July 20, 1951, the Board approves the designation of Curtis Leroy Scott as a special assistant examiner for the Federal Reserve Bank of Dallas."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

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"Reference is made to your letter of July 16, 1951, requesting that appropriate members of the Board's staff and proper persons at the Federal Reserve Banks in Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas be advised of your intention to continue your program of auditing the Certified Statements submitted for assessment purposes by insured banks and that you are scheduling such audits in a number of the larger banks in the Sixth, Eighth, Ninth, Tenth and Eleventh Federal Reserve Districts.

"Copies of your letter and this reply have been sent to the Presidents of the Federal Reserve Banks of Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas together with information as to the provisions of your previous letters, to which you refer, with regard to the scope of the audits, the personnel engaged therein, etc. Attention of the Presidents of the first three banks was invited to the fact that such audits had been made in banks of one or more States in their respective districts."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"As you are no doubt aware, Ceiling Price Regulation No. 34, issued on May 11, 1951, by the Office of Price Stabilization, applies to service charges by banks. For your information in this connection there is enclosed a copy of a letter which the Board addressed to the President of a Federal Reserve Bank in response to his inquiry pointing out the difficulties caused by such regulation when nonpar banks are added to the par list or become members in the Federal Reserve System.

"It was our thought that your Bank should have the benefit of this information in the event you should have a case of a nonpar bank being added to the par list or an application of a State bank for membership in the System, either of which might involve setting up of a new system of service charges. When you have such a case you might wish to send it to the Board after developing fully the

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"information necessary for submission to the Office of Price Stabilization as indicated in the third paragraph of the enclosed letter as well as pertinent provisions of Ceiling Price Regulation No. 34."

Approved unanimously.

Letter to the Honorable Chester B. McMullen, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of July 2, 1951, with which you enclosed a letter from Mr. T. F. Green, Jr., Treasurer, General Construction Corporation, St. Petersburg, Florida, concerning difficulties being experienced in Florida in connection with securing bank loans with Government guarantees.

"Over-all figures on Regulation V loans indicate that through June 30 six guaranteed loans had been authorized through the Federal Reserve Banks by the guaranteeing agencies to defense contractors in Florida. These loans represented about one-fifth of the total in the Atlanta Federal Reserve District, which is approximately the same proportion that total loans of Florida member banks bear to total loans of member banks in the entire Atlanta District.

"In the second paragraph of his letter, Mr. Green states that a bank to which he applied for a loan refused to lend on a V-loan with a Government guarantee partly because of having to give up part of its interest to the Federal Reserve. A Federal Reserve Bank does not receive any interest on such loans unless as a participant it advances funds. Presumably Mr. Green refers to the guarantee fee, which is computed as a percentage of the interest charged the borrower on the loan and varies in amount according to the percentage of guarantee. The guarantee fee goes to the Government. The Federal Reserve Banks collect these fees as fiscal agents of the Government procurement department issuing the guarantee. The guarantee fees are then deposited by the Reserve Bank in the U. S. Treasurer's General Account to the credit of the appropriate Government procurement agency.

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"In general, banks have shown a willingness to make defense loans, and a substantial part of the increase in loans which has occurred during the past nine months has been related to the defense effort. It is true that for a time some banks were reluctant to make loans secured by assignment of proceeds of defense contracts. This was because of opinions of the Comptroller General that financing institutions might be liable to return to the Government amounts received by them on assigned contracts to satisfy claims by the Government against the contractors, though such claims were totally unrelated to the loan. This situation was corrected, however, when the Congress amended the Assignment of Claims Act of 1940, effective May 15, 1951, so as to relieve assignee financing institutions of any liability to repay amounts received by them after July 1, 1950, under any assignment. It must be remembered, also, that banks as private financing institutions have an obligation to their depositors and stockholders, and they can not be expected to take undue risks in making loans even for defense production purposes. Certain loans may carry substantial risk or be unduly expensive to service even when covered by a guarantee. In this connection, it may be noted that it is the policy of the guaranteeing agencies to authorize guarantees of over 95 per cent -- on which the guarantee fee would range from 40 per cent to 50 per cent of the interest on the loan -- only in unusual cases in which the product can not be obtained from other sources and is considered to be vital to the defense effort by the procurement agency, and when no other suitable financing is available.

"At the end of Mr. Green's letter it is stated that Congress passed Section 13b to take care of such situations as are referred to in the letter. Section 13b of the Federal Reserve Act, which authorizes the Federal Reserve Banks to make loans, and commitments to discount or purchase loans, for the purpose of providing working capital to established businesses, was enacted in 1934 during the time of depression. One of the purposes which Congress intended to serve by this legislation was to maintain employment or provide additional employment. The Federal Reserve Banks may and do make loans to defense contractors under Section 13b, but under the law such loans must be made

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"on a reasonable and sound basis and direct loans to borrowers may be made by the Reserve Banks only in exceptional circumstances when credit is not available from the usual sources.

"We are not in a position to comment on prices paid by procurement agencies, but we hope that this letter will be of some help to you in answering Mr. Green's letter, which is returned herewith. Our answer has been delayed so that we might make certain inquiries relating to Mr. Green's allegations."

Approved unanimously.

Letter to Mr. James H. McCarthy, Secretary, The McCarthy Company, 1138 South Broadway, Los Angeles, California, reading as follows:

"This will acknowledge your letter of July 9, 1951, to Chairman Martin, with which you enclosed copies of an exchange of correspondence with the Los Angeles Branch of the Federal Reserve Bank of San Francisco. In your letter you ask various questions about Regulation X, Real Estate Credit.

"We have carefully read the correspondence you sent us and confirm the correctness of the reply you received to your various questions from the Los Angeles Branch of the Federal Reserve Bank. Regulation X was issued under the authority of the Defense Production Act of 1950, passed by Congress, and Executive Order No. 10161 of the President. Section 602(d)(1) of the Act provides as follows:

"Real estate construction credit" means any credit which (i) is wholly or partly secured by, (ii) is for the purpose of purchasing or carrying, (iii) is for the purpose of financing, or (iv) involves a right to acquire or use, new construction on real property or real property on which there is new construction. As used in this paragraph the term "new construction" means any structure, or any major addition or major improvement to a structure, which has not been begun before 12 o'clock meridian, August 3, 1950. As used in this paragraph the term "real property" includes leasehold and other interests therein...

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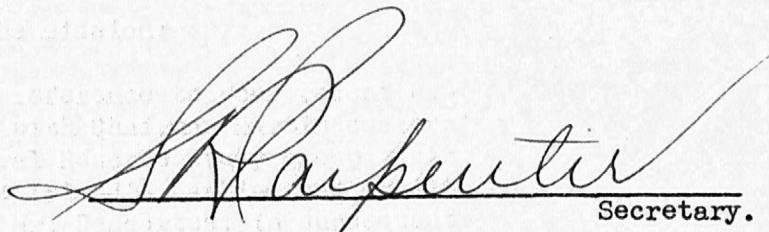
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"Part V of the Executive Order provides in part:  
'...the functions conferred upon the President by Section 602 of the Defense Production Act of 1950 are hereby delegated to the Board of Governors of the Federal Reserve System.'

"Regulation X, therefore, which in section 2(f) defines 'new construction' as any structure, or any major addition or major improvement to a structure, which is or has been begun after 12 o'clock meridian, August 3, 1950, follows the legislative intent of Congress and we do not believe it is within the province of the Board to alter the effect of this legislation by administrative action.

"If we can furnish you with any additional information we will be glad to do so."

Approved unanimously, with a  
copy to Mr. Millard, Vice President  
of the Federal Reserve Bank of San  
Francisco.



Secretary.